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Regions Financial Corp. (RF)

Q1 2018 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to the Regions Financial Corporation's Quarterly Earnings Call. My name is Shelby, and I'll be your operator for today's call. I would like to remind everyone that all participant phone lines have been placed on listen-only. At the end of the call, there will be a question-and-answer session. [Operator Instructions]

I will now turn the call over to Ms. Dana Nolan to begin.

Dana W. Nolan

Executive Vice President - Head of Investor Relations, Regions Financial Corp.

Thank you, Shelby. Welcome to Regions' first quarter 2018 earnings conference call. Grayson Hall, our Chief Executive Officer, will review highlights of our first quarter financial performance, and David Turner, our Chief Financial Officer, will take you through the details of the quarter. Other members of management are also present and available to answer questions.

A copy of the slide presentation as well as our earnings release and earnings supplement are available under the Investor Relations section of regions.com. Our forward-looking statements disclosure and non-GAAP reconciliations are included in the appendix of today's presentation, and within our SEC filings. These cover our presentation materials, prepared comments, as well as the question-and-answer segment of today's call.

With that, I will now turn the call over to Grayson.

O. B. Grayson Hall, Jr.

Chairman, President & Chief Executive Officer, Regions Financial Corp.

Thanks, Dana. Good morning and thank you for joining our call today. Let me begin by saying we're pleased with our first quarter 2018 results which represent a good start to the year. For the first quarter, we reported solid earnings from continuing operations of $398 million, up 44%, and earnings per share of $0.35, an increase of 52% compared to the first quarter of the prior year.

Importantly, we delivered positive operating leverage with solid revenue growth and disciplined expense management. And this marks another strong quarter with respect to asset quality. We continue to benefit from our asset-sensitive balance sheet and strong deposit franchise, which drove a 6% year-over-year increase in net interest income and a 21 basis point increase in net interest margin. Total new and renewed loan production increased 24% over the prior year, resulting in a modest adjusted average loan growth during the first quarter.

In terms of the economy, we remain encouraged by improving conditions as well as customer sentiment. The consumer generally remains healthy and we continue to experience growth in our consumer loan portfolios as well as consumer deposits. During the quarter, we continued to experience broad-based improvement in most credit metrics, including further reduction in non-performing loans which marks the best metric in over a decade.

With respect to our business strategy, we remain committed to diligent execution of our strategic plan and we're making notable progress with respect to our Simplify and Grow strategic initiative. As part of that effort, in March, we announced steps to streamline our structure, creating more distinct lines of responsibility and much clearer accountability. These changes simplify our organization, strengthen our connection with our customers, increase engagement with our communities, and create greater alignment with our business and our strategies.

In addition to reinforcing our commitment to our communities, we believe these changes will further improve service quality and make banking easier for our customers. Related, two weeks ago, we entered into a definitive agreement to sell our Regions Insurance Group subsidiary. This transaction further supports our efforts to simplify and streamline our company and focus on businesses where we can add the most value. It also demonstrates our strategic planning and capital allocation process in action and aligns with our Simplify and Grow strategic initiative.

In addition, we continue to evaluate our retail network strategy and recently approved plans to consolidate between 30 and 40 additional branches during 2018. To facilitate growth, we've also planned to open approximately 20 de novo branches in certain high growth priority markets. Rest assured, during this time of transformational change for our company, we remain focused as ever on providing customers with exemplary service.

This is what relationship banking is all about and is at the core of our needs-based go-to-market strategy. Validating our approach, we recently received recognitions from several external sources for our superior customer service. For the fifth consecutive year Regions was ranked among the top 10% of companies across a wide range of industries in the Temkin Experience rankings. And for the fourth consecutive year, Regions has received the Gallup Great Workplace Award for employee engagement.

Regions was also recognized by Greenwich Associates with 22 Excellence Awards for its small business and middle market customer service and Regions ranked second highest in customer satisfaction for advice and guidance in the J.D. Power Retail Banking Sales Practices & Advice Study. Again, these awards provide evidence that our needs-based go-to-market strategy continues to resonate with customers and associates.

As we look forward, we believe there are four key areas providing considerable momentum for Regions. First is our asset sensitivity and funding advantage driven by our low-cost deposit base which we believe provides a significant franchise value and a competitive advantage in a rising rate environment. Second relates to asset quality. We experienced another quarter of broad based improvements in credit quality and continue to expect modest improvements throughout the remainder of the year.

Next, robust capital returns as we've moved towards our targeted common equity Tier 1 ratio, included the anticipated capital generated from the sale of our Regions' insurance subsidiary. Finally, we expect additional improvements in core performance through our Simplify and Grow initiative, which is well underway as evidenced by our actions during the quarter.

I will now turn the call over to David to cover the details of the first quarter. David?

David J. Turner, Jr.

Senior Executive Vice President & Chief Financial Officer, Regions Financial Corp.

Thank you, and good morning. As Grayson mentioned, we are pleased with our first quarter results which reflect improvements in several areas and solid momentum as we head into the remainder of 2018. Before we get started, it's important to point out that the decision to sell our insurance business meets the criteria for reporting as discontinued operations at March 31. My comments this morning will be limited to results from continuing operations and our earnings supplement provides recast historical results that exclude insurance.

Now let's start with the balance sheet beginning with average loans. Adjusted average loan balances increased $620 million or 1% over the prior year quarter. Adjusted loans exclude the third-party indirect vehicle portfolio as well as the impact of a $254 million sale of residential mortgage loans that occurred during the first quarter.

This sale consisted primarily of troubled debt restructured or TDR loans which are punitive for purposes of the FDIC assessment and include elevated loss assumptions under adverse capital planning scenarios. This, coupled with an improving market for reperforming TDR loans, provided an opportunity to further de-risk our balance sheet.

Within Consumer, we continue to generate consistent loan growth across most categories. Adjusted average balances in the consumer lending portfolio totaled $30.1 billion reflecting an increase of $157 million. Growth in residential mortgage, indirect and other consumer, indirect vehicle, and consumer credit card was partially offset by continued declines in home equity balances.

Turning to the business lending portfolio, average balances totaled $48.6 billion, reflecting an increase of $463 million as growth in C&I loans was partially offset by declines in owner-occupied commercial real estate and investor real estate. C&I loans grew $775 million led by growth in government and institutional banking, energy and natural resources, and technology and defense, and related pipelines continued to improve.

Owner occupied commercial real estate loans declined $108 million reflecting a slowing pace of decline. Additionally, investor real estate loans declined $204 million driven by maturities and payoffs. However, we believe this portfolio will begin to stabilize and grow in the second half of the year. For the balance of 2018, we continue to expect full-year adjusted average loans to grow in the low single digits.

Let's move on to deposits. We continue to execute a deliberate strategy to optimize our deposit base by focusing on valuable, low-cost consumer deposits, while reducing certain higher-cost, brokered and collateralized deposits. Total average deposits declined approximately 2% during the quarter to $95.4 billion. Consumer segment deposits experienced modest growth during the quarter consistent with our relationship baking focus, while corporate segment deposits decreased 2% driven primarily by seasonal declines.

Average deposits in the wealth management segment declined $221 million or 2% driven primarily by decline in interest-free deposits as well as ongoing strategic reduction of collateralized deposits.

Certain institutional and corporate trust customer deposits within the wealth segment which required collateralization by securities continued to shift down in deposits and into other fee income producing customer investments. Average deposits in the other segment decreased $946 million dollars or 36% driven by our strategy to reduce retail brokered sweep deposits. Looking forward, we continue to expect 2018 full year average deposits to grow in the low single digits excluding brokered and wealth institutional services deposits.

Let's take a look at the composition of our deposit base. During the first quarter, deposit cost increased 4 basis points to 21 basis points, largely driven by indexed accounts and annual savings account bonuses. Total funding costs remained low at 46 basis points illustrating the strength of our deposit franchise. Further illustrating the strength, cumulative deposit betas through the current rising rate cycle are only 13% and, importantly, consumer retail deposit betas remain near zero. As expected commercial deposit betas have been more reactive with a cumulative beta of approximately 39%.

As a reminder, over two-thirds of our deposit base is from retail customers and those customers have been very loyal to Regions as more than 45% of our consumer low-cost deposits are from individuals who have been deposit customers for more than 10 years. We are well positioned to maintain a lower deposit beta relative to peers, given our large deposit franchise, customer loyalty, market locations, small account balances and our strong liquidity position. We're also committed to paying our customers competitive and appropriate rates on their deposits.

Let's take a look at how this impacted our results. On an adjusted basis, net interest income was $909 million, representing an increase of $2 million from the prior quarter. And net interest margin was 3.46%, an increase of 7 basis points. These increases were driven by higher market interest rates, marginally offset by the incremental cost of our opportunistic bank debt issuance earlier in the quarter.

In addition, two fewer days in the quarter reduced net interest income by approximately $10 million, but benefited net interest margin by approximately 4 basis points. As a reminder, offsetting the net interest margin benefit from day count is a permanent reset downward of approximately 4 basis points associated with the reduced taxable equivalent adjustment resulting from tax reform.

With respect to full-year 2018, due to higher interest rate expectations relative to our original forecast assumptions, we now expect adjusted net interest income growth in the 4% to 6% range. Specific to the second quarter of 2018, we expect net interest income and net interest margin to increase, reflecting the full benefit of the March rate increase and current expectations for higher short-term rates.

Keep in mind, one additional day in the second quarter will benefit net interest income approximately $5 million but reduce net interest margin by approximately two basis points. We expect continued growth in net interest income consistent with our improved full-year outlook and we expect net interest margin to be stable to up modestly.

Let's move on to fee revenue. Adjusted non-interest income totaled $503 million, reflecting a decrease of $3 million or 1% from the fourth quarter. Other non-interest income include the $6 million increase to the value of an equity investment and $7 million in net gains associated with the sale of certain low-income housing investments. Offsetting these gains were $4 million of net impairment charges related to certain operating lease assets.

Capital markets experienced another strong quarter. However, income declined from a record high fourth quarter. Although timing can be difficult to project, we do expect capital markets income to be a significant contributor to adjusted non-interest income growth in 2018.

Card and ATM fees were seasonally lower, reflecting the lower interchange income. An increase in mortgage income was driven by improvement in the market valuation of mortgage servicing rights and related hedging activity. Consumer fee income categories are an important and stable component of fee revenue and are also expected to contribute to overall growth in 2018. With respect to full year 2018, we continue to expect adjusted non-interest income growth in the 3% to 6% range.

Let's move on to expenses. On an adjusted basis, non-interest expense decreased $7 million or 1% attributable primarily to decreases in expense associated with Visa class B shares and FDIC assessments partially offset by increases in salaries and benefits and professional fees. Recent unsecured debt issuances and the residential mortgage loan sale consisting primarily of troubled debt restructured loans contributed to a reduction in the FDIC assessment. Excluding the impact of severance charges, salaries and benefits increased nominally due primarily to seasonally high payroll taxes, partially offset by staffing reductions.

Efforts to simplify our organizational structure, including previously discussed structural changes, contributed to approximately 350 fewer positions since year end and 735 fewer positions since the first quarter of the prior year. These efforts contributed to increase severance charges this quarter. We do expect to incur additional severance charges throughout the remainder of 2018, as we execute on our Simplify and Grow strategic initiative.

The increase in professional fees is primarily attributable to higher consulting fees. The adjusted efficiency ratio was 60.5% essentially unchanged from the prior quarter. Of note, the company also generated 2.3% adjusted positive operating leverage over the first quarter of 2017.

We experienced solid growth in adjusted pre-tax pre-provision income increasing 11% and reflecting its highest level in almost 10 years. For full-year 2018, we expect adjusted operating leverage of 3% to 5%, relatively stable adjusted expenses, and adjusted efficiency ratio of less than 60%. The first quarter effective tax rate was 23.6%. However, we continue to expect a full year effective tax rate between 20% and 22%.

Shifting to asset quality, broad-based asset quality improvement continued during the quarter. Non-performing criticized and troubled debt restructured loans as well as total delinquencies all declined. Marking the lowest level in over a decade, non-performing loans excluding loans held for sale decreased $49 million or 8% and now represent 0.75% of loans outstanding.

We also reported a 9% and 13% decline in business services criticized and total troubled debt restructured loans respectively, and a 4% decline in total delinquencies. Adjusted net charge-offs totaled $79 million or 40 basis points of average loans, a 9 basis point increase over the prior quarter. The increase in net charge-offs was primarily attributable to larger recoveries in the prior quarter.

As it relates to the allowance for loan losses, a $30 million reduction of hurricane-specific allowance and a $21 million reduction associated with the TDR sale combined with payoffs and paydowns of adversely rated loans resulted in a credit provision of $10 million. The allowance for a loan and lease losses decreased 12 basis points to 1.05% of total loans outstanding. The resulting allowance for loan and lease losses as a percent of total non-accrual loans decreased 4 basis points to 140%.

For the full year of 2018, we expect net charge-offs to be in the range of 35 to 50 basis points and based on a recent performance and current market conditions, we would expect to be at the lower end of that range. However, volatility in certain credit metrics can be expected especially related to large dollar commercial credits.

So let's move on to capital and liquidity. During the first quarter, we repurchased $235 million or 12.5 million shares of common stock and declared $101 million in dividends to common shareholders. As Grayson mentioned, following quarter end, we entered into a definitive agreement to sell our insurance subsidiary.

Subject to regulatory approval, this transaction is expected to generate additional capital of approximately $300 million at closing which is expected to be in the third quarter. The capital generated is expected to be used to repurchase shares of common stock subject to review and non-objection by the Federal Reserve as part of the 2018 CCAR process.

Our first quarter capital ratios remain robust. Under Basel III, the Tier 1 capital ratio was estimated at 11.9% and the fully phased in common equity Tier 1 ratio was estimated at 11.0%. Finally, our liquidity position remains solid with a low loan to deposit ratio of 82% and we were fully compliant with the liquidity coverage ratio rule as of quarter end. Regarding 2018 expectations, with the exception of an increase in adjusted net interest income growth, our expectations remain unchanged and are summarized again on this slide for your reference.

So in conclusion our first quarter results provide a solid start to the year and we believe our Simplify and Grow strategic initiative along with other opportunities and competitive advantages position us well for 2018 and beyond.

With that, we thank you for your time and attention this morning. And I will now turn it back over to Dana.

Dana W. Nolan
Executive Vice President - Head of Investor Relations, Regions Financial Corp.

Thank you, David. As it relates to Q&A, please limit your questions to one primary and one follow-up to accommodate as many participants as possible. We will now open the line of your questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. The floor is now open for questions. [Operator Instructions] Your first question comes from John Pancari of Evercore.

O. B. Grayson Hall, Jr.
Chairman, President & Chief Executive Officer, Regions Financial Corp.

A

Good morning, John.

John Pancari
Analyst, Evercore ISI

Q

Good morning. On the McKinsey study, just wanted to see if you can update us with your any expectations you've developed out of that in terms of a targeted efficiency and how much of that – of any target that comes out of that would you expect would be revenue versus expenses? Thanks.

David J. Turner, Jr.
Senior Executive Vice President & Chief Financial Officer, Regions Financial Corp.

A

Yeah, John, this is David. So we had elements of McKinsey built into the guidance that we've given you for 2018. We're still working through – we just kind of got the first part of this done in the first quarter. There's a lot more to do and we're going to update you on kind of a three-year – this is going to be a longer journey. This is not a 2018 only. We'll have elements of this working through a couple of years, two to three years actually. We're going to update all that at our Investor Day, which will happen in February of 2019.

That being said, there's elements of McKinsey of how we keep our expense number relatively flat this year and there's elements of McKinsey on how we get the growth in revenue of 3% to 6% on NIR for 2018 as well. As we think about the total commitment on revenue, it's about 70% of it is expense and about 30% of it is on the revenue side. That's our best guess thus far. We will refine those as we go through the remainder of our Simplify and Grow initiative.

From an efficiency ratio standpoint, we've given you guidance. It will be below 60%. As you know we had a – when the tax rate changed, that caused all of us, all of our peers for the tax adjustment, for us, it was about 50 basis points going the other way. We did not change our guidance because we had Simplify and Grow and we also had our insurance transaction in mind at that time. So we think we're confident and we'll have an efficiency ratio below 60% in 2018. That being said, we think over time we're going to need to be in that mid-50%s and we're working towards that.

John Pancari
Analyst, Evercore ISI

Q

Got it. Thank you. That's helpful. And then separately on the capital side, you mentioned the insurance sale and along those lines, can you just talk to us about how you're thinking about the business mix if there's other areas of the business that you think you would possibly exit? And then conversely, how are you thinking about additions to the business in terms of whole bank M&A and maybe a [ph] fall (26:30) on the environment? Thanks.

O. B. Grayson Hall, Jr.
Chairman, President & Chief Executive Officer, Regions Financial Corp.

A

John, the first of all, the Regions Insurance has been a part of our business for a while, It's a very – we made a very analytical and thoughtful evaluation of that. It was a valuable asset for us. Very talented team in the Regions Insurance group. But we had reached a point in our analysis where we had to make a decision on how best to deploy our capital and should we try to increase the scale of our participation in that segment or was there a more valuable asset for someone else. And as you see we came to what was a complex but thoughtful decision that took what was a very valuable asset to us and we think we made a good decision for ourselves, for our customers and for our team members that are in that business.

When we look at opportunities to grow, as we've said in the past, we're primarily focused on organic growth, trying to determine how to do that. We, on a very ongoing disciplined basis, look at how we're allocating our capital by product, by business, by geography, and we look for opportunities to acquire where it will help accelerate growth. We've been fairly active in non-bank acquisitions. We continue to review those opportunities.

We've been very studious on bank acquisitions but continue to look at the markets and how we trade versus banks that we might be interested in, and it's still economically challenging. So while we're looking at it, we're studying it. We understand where the markets are at. We just think the opportunity for bank M&A for us is fairly limited at the moment. And so we're trying to prioritize how we grow. And again, I think, organic's first way we grow and non-bank acquisition is the second way we grow at this moment.

John Pancari
Analyst, Evercore ISI

Q

Got it. All right, thanks, Grayson.

Operator: Your next question comes from Ryan Nash of Goldman Sachs.

O. B. Grayson Hall, Jr.
Chairman, President & Chief Executive Officer, Regions Financial Corp.

A

Hi, Ryan.

Ryan M. Nash
Analyst, Goldman Sachs & Co. LLC

Q

Hey, good morning, guys. Hi, Grayson. Maybe I'll ask John's question a little different way. Was there a full business review done in making the decision to selling the insurance business, and are you currently looking at other businesses to potentially sell that you're either subscale or you're not achieving your desired returns?

O. B. Grayson Hall, Jr.
Chairman, President & Chief Executive Officer, Regions Financial Corp.
A

I mean, Ryan, absolutely. I mean, we take a full business review, all of our businesses on a fairly frequent basis. But we – David has probably mentioned it hundreds of times in terms of optimizing our allocation of capital and we've really spent a lot of time not only in our finance team but also in our business leadership teams determining exactly what a reasonable rate of return is for those businesses. We set different hurdles for them. As you might imagine, we debate them back and forth because those profit pools expand and contract depending on where you're at in the cycle. And so we look at – we try to look at these businesses on a long-term sustainable basis, not just a particular point in time.

As you might imagine, our decision to divest Regions Insurance was a difficult decision because we've been in that business for a long time and, like I said, a great team of people running it. But when we look at the risk adjusted returns in that business and what we had to do to improve those, we came to the conclusion given where those assets are trading today that the best decision for us was to divest that business. We look at all our businesses that way and not that we intend to share our debates but you could can rest assured that there is a rigorous debate going on all the time regarding the businesses that we're in.

David, do you want to add that?

David J. Turner, Jr.
Senior Executive Vice President & Chief Financial Officer, Regions Financial Corp.
A

Yeah. I would say that there are a lot of factors that we look at, as Grayson mentioned, in evaluating a business. We look at how synergistic businesses are or not. In this particular case, insurance, we had more of a retail platform than BB&T did. BB&T has a wholesale platform that they can marry up with retail. They had more scale in the business than we did and, for us, to get the scale we thought we needed to have to become more efficient at it, as you can see now that the efficiency ratio was pretty high for us in the business, and to get the scale and efficiency ratio down was going to require a disproportionate amount of capital investment that we felt we could use elsewhere.

And it's a good thing, it's a good business, good people. As a matter of fact we use them as well and we think that BB&T can do more with it than we can and we have – we'll put our capital to use in a more appropriate fashion.

O. B. Grayson Hall, Jr.
Chairman, President & Chief Executive Officer, Regions Financial Corp.
A

And we do think it is a good transaction for us, and likewise I think it was a good transaction for BB&T.

Ryan M. Nash
Analyst, Goldman Sachs & Co. LLC
Q

Got it. Thanks for all the color. And I guess, David, you note in the slides that consumer betas are near zero, commercial is running just below 40%. Can you maybe just give us a sense what's baked into your 4% to 6% NII growth for the rest of the year? And have you had to make any changes on the consumer side with the most recent hikes? Thanks for taking my question.

David J. Turner, Jr.
Senior Executive Vice President & Chief Financial Officer, Regions Financial Corp.
A

Yes. So you're right. That consumer beta has been low to nonexistent. We do think that we'll get pressure over time, and we aren't seeing it on the consumer side yet, but we expect that to happen. We have a beta still baked in in that 35% range going up to 60% over time. The commercial side, a lot of that's indexed to the funds rate or other rates in wealth management.

And we've been fairly conservative with our betas. They've proven out better than we thought. We're at 13% cumulative beta, and we think for the next – maybe the next one or two moves, maybe we keep it low. But over time it's going to catch up to where we think it's going to be in that 40% to 60% range. As you think about Q2, we really don't put a beta forecast as we haven't given you that, but we expect that to be fairly similar to what we just saw this past quarter.

Ryan M. Nash
Analyst, Goldman Sachs & Co. LLC

Q

Thanks for the color.

Operator: Your next question comes from Erika Najarian of Bank of America.

O. B. Grayson Hall, Jr.
Chairman, President & Chief Executive Officer, Regions Financial Corp.

A

Good Morning, Erika.

Erika Najarian
Analyst, Bank of America Merrill Lynch

Q

Good morning. Thank you for taking my questions. I just wanted to get a little bit of clarity in terms of timing of announcement regarding some of the conclusions from Simplify and Grow. I think the market had been expecting an update, a more formal update in the summer. I'm wondering if there still will be a formal update in the summer in addition to during your February 2019 Investor Day or should we wait until the 2019 Investor Day to get a more robust update?

David J. Turner, Jr.
Senior Executive Vice President & Chief Financial Officer, Regions Financial Corp.

A

Erika, what we want to do is make sure we have a very solid footing on our Simplify and Grow, the effects of that on our business before we go to the market with it. I think what we've learned over time since our Investor Day is credibility. We're doing what we said we're going to do. We want to make sure we're ready and have the right commitment. We do know that will happened by Investor Day. So you have a lot of clarity at Investor Today. And to the extent we get further down the road, we'll give you an update as we determine that and I think we'll have probably something incremental. Each quarter, we'll give you something incremental. But the full-fledged here's what it's going to mean for a really 2019 and 2020 and beyond is at Investor Day.

As you can imagine putting things in motion today, it takes time to garner the benefit of those changes. And so, we don't see a ton of change on our business. And in all of 2018, you'll see elements of that trickling in the back half of 2018 and we'll give you that guidance as it becomes known and perhaps we'll will give you that guidance as it becomes know and perhaps we'll will give you some incremental in the second quarter.

O. B. Grayson Hall, Jr.
Chairman, President & Chief Executive Officer, Regions Financial Corp.

A

But, Erika, I would say that you're going to hear from us every quarter on things that we're doing that we more broadly place under that umbrella. You clearly heard this quarter on our sale of the troubled debt restructured loans, that broadly falls under the Simplify and Grow umbrella. We also had the Regions Insurance sale. We also in the prepared remarks gave you how much our head count was down quarter-over-quarter as well as how much it was down year-over-year. You've seen a number of public press releases on our reorganization efforts in terms of how we line up to go to market. And so, you're going to hear these every quarter and this quarter was probably one of the more informative quarters we've had in a while and you'll see that continue throughout the year.

To David's point, we'll continue to give those every quarter. But then you'll see us embed those in our three-year forecast at Investor Day next February. But it's not like you've got to wait for February to hear some of this. But clearly, some of these things we're doing, we can't pre-announce prior to actually executing the transactions.

Erika Najarian
Analyst, Bank of America Merrill Lynch

Q

Got it. So my follow-up then is, is the better way to think about it is Simplify and Grow is part of your business as usual way of conducting your day-to-day. And so as we think about 2018 or 2019, even though the formal announcement is not until February, you're still Simplify and Grow – taking those initiatives that your shareholders can reap benefits in 2018 and 2019?

O. B. Grayson Hall, Jr.
Chairman, President & Chief Executive Officer, Regions Financial Corp.

A

Absolutely. And then, I wouldn't say – I wouldn't cast February as a formal announcement of Simplify and Grow. February is a formal announcement of our next three year plan and in our Simplify and Grow activities will be embedded in that plan.

Erika Najarian
Analyst, Bank of America Merrill Lynch

Q

Understood. It's very clear. Thank you.

O. B. Grayson Hall, Jr.
Chairman, President & Chief Executive Officer, Regions Financial Corp.

A

Thank you.

Operator: Your next question comes from Betsy Graseck of Morgan Stanley.

O. B. Grayson Hall, Jr.
Chairman, President & Chief Executive Officer, Regions Financial Corp.

A

Good morning, Betsy.

Betsy L. Graseck
Analyst, Morgan Stanley & Co. LLC

Q

Good morning. Couple of questions. One is on the 2018 expectations. You indicated the fee growth target and obviously, you have sold the insurance business. So I just wanted to make sure I understood that there's other areas that are going to be picking up and making up for the insurance business sales. Is that accurate?

David J. Turner, Jr.
Senior Executive Vice President & Chief Financial Officer, Regions Financial Corp.

A

Well, so we put the Regions Insurance group as discontinued operations and we restated everything. So you got to go back to the restated baseline as well. So we're talking about 3% to 6% off of that. We're not going to do 3% to 6% off of overcoming the...

Betsy L. Graseck
Analyst, Morgan Stanley & Co. LLC

Q

Right.

David J. Turner, Jr.
Senior Executive Vice President & Chief Financial Officer, Regions Financial Corp.

A

...the gross revenue of insurance.

Betsy L. Graseck
Analyst, Morgan Stanley & Co. LLC

Q

Right. And so, what you're suggesting is that the fee growth rate really was not being impacted by the insurance business?

David J. Turner, Jr.
Senior Executive Vice President & Chief Financial Officer, Regions Financial Corp.

A

That's right.

Betsy L. Graseck
Analyst, Morgan Stanley & Co. LLC

Q

Right.

David J. Turner, Jr.
Senior Executive Vice President & Chief Financial Officer, Regions Financial Corp.

A

We would have – that's right. Yeah. We'd have 3% to 6%.

O. B. Grayson Hall, Jr.
Chairman, President & Chief Executive Officer, Regions Financial Corp.

A

Regardless.

David J. Turner, Jr.
Senior Executive Vice President & Chief Financial Officer, Regions Financial Corp.

A

Regardless.

Betsy L. Graseck
Analyst, Morgan Stanley & Co. LLC

Q

All right. Okay. And then, just on some of the investments, you mentioned the de novo branches. Maybe if you could give us a sense of size, scale, scope, market, timing?

O. B. Grayson Hall, Jr.
Chairman, President & Chief Executive Officer, Regions Financial Corp.
A

I'll ask John Owen to respond to that.

John B. Owen
Senior Executive Vice President & Head-Regional Banking Group, Regions Financial Corp.
A

Good morning. This is John Owen. Yeah. We're going to roll out probably 20 branches this year. They'd be concentrated really in three markets. St. Louis will be the majority. Roughly, eight or nine of our branches will open in St. Louis in the really second, third quarter time period. Atlanta would be another market where we're going to open branches on this quarter and last would be Houston. So those would be the key markets. You'll see the roughly 20 branches open this year.

There'll be a few infill markets, and Memphis and Knoxville and Charlotte will infill as well. The other thing on the branching standpoint, we mentioned consolidation. We've got roughly 30 to 40 consolidations teed up as well. So you'll see our net branch count will be down a little bit, but you'll see us continue to invest in key markets.

Betsy L. Graseck
Analyst, Morgan Stanley & Co. LLC
Q

Okay. And then that trajectory of investment and expense, say, obviously feeds into the efficiency ratio expectations you've got. Do you feel like this type of pace is something to continue into in 2019, over the next couple of years or you feel like your branch network will be where you want it to be by the end of this year?

John B. Owen
Senior Executive Vice President & Head-Regional Banking Group, Regions Financial Corp.
A

Yeah, I would tell you over the next two to three years, you'll see us continue to build roughly 20 to 30 branches a year in select markets. We also have opportunities where we can continue to consolidate. The opportunities on consolidation are getting a little bit harder, if you will. We consolidated in the last two years about 10% of our network over the last two years. And there's opportunity where a lot of that opportunity is what I'll call two for ones or three for ones, where we're taking a branch and expanding a branch to absorb two or three other branches that are nearby. So you'll see us balance out building and consolidating.

O. B. Grayson Hall, Jr.
Chairman, President & Chief Executive Officer, Regions Financial Corp.
A

But, Betsy, our branch rationalization process is part of how we manage channels in general, whether through our digital channel or contact centers, our ATMs, our branches. And it's a fairly dynamic review and it's been one we've had in place for a quite some time. And to John's point, we'll continue to make annual adjustments to that as we see markets change and we see customer behavior change. And so it's a very analytical process and so we may forecast out three years on that, but we review them constantly, so if we need to make in-flight adjustments, we can do that.

John B. Owen
Senior Executive Vice President & Head-Regional Banking Group, Regions Financial Corp.
A

The other thing I would add is the fact that the reason we've been able to consolidate as many branches we have is our investments in online and mobile space. We have a lot of self-service transactions go to online and mobile. And that's allowed really us to consolidate and not impact our growth.

Betsy L. Graseck
Analyst, Morgan Stanley & Co. LLC

Q

And just one last one, on video ATMs, we were down there recently. It was interesting to see how much functionality that has. And I was wondering, is that strategy of video ATM, A, kind of fill in of existing footprint or is it more an opportunity to expand footprint?

John B. Owen
Senior Executive Vice President & Head-Regional Banking Group, Regions Financial Corp.

A

We've got roughly 90 video ATMs deployed. It really is – what we're finding out, we're testing in a couple of different ways. One, inside our branches, we're using the vestibules to extend banking hours. And to your point, customers can do most of their banking transactions on that video teller, have an opportunity to talk to an experienced banker that can help them with those transactions that we've seen good adoption in our branches in the vestibules.

We've also tried it in a few drive-through ATMs. I would tell you those are not quite as high usage, because we don't have the ability to assist that customer and walk them through the process as well. So we're seeing good adoptions in the branch.

O. B. Grayson Hall, Jr.
Chairman, President & Chief Executive Officer, Regions Financial Corp.

A

Yeah, and I think, Betsy, if you look at our ATM network, we've continued to invest in that channel and we've image enabled all of our traditional ATMs and we're seeing customer transactional behavior improve at what we would call a somewhat traditional ATM. We've been encouraged by the video tellers, but it also has been a learning process. We found some places they worked great, in some places, not so great.

We think it's an interesting technology. We think that there's a place for it in our channel portfolio. But I would tell you, we're still in the early stages of that. Even with 90 units in our portfolio – 90 units, even in that regard, that is a fairly small investment, but it's allowing us to learn how we might deploy it on a larger basis.

Betsy L. Graseck
Analyst, Morgan Stanley & Co. LLC

Q

Okay. Thank you.

Operator: Your next question comes from Ken Usdin of Jefferies.

O. B. Grayson Hall, Jr.
Chairman, President & Chief Executive Officer, Regions Financial Corp.

A

Hey, good morning Ken.

Ken Usdin
Analyst, Jefferies LLC

Q

Thanks. Good morning. Hey, good morning, Grayson. Good morning, David. First question just on the capital markets front within fees, another good quarter down a little bit, but expected. You talked about that being a big contributor to fee growth this year. Can you talk about just pipelines where it's coming from and how much more you might have to still hire to build and bulk that business up? Thanks.

John Turner
President & Head of Corporate Banking Group, Regions Financial Corp.
A

This is John Turner. We expect it to be a nice contributor to revenue growth, nice revenue growth through the balance of the year. I think what you're saying is the maturation of the various product offerings that we've put together and the capabilities that we've developed. For the quarter, the growth in revenue over year – year-over-year growth in revenue was broad-based across a number of different product categories whether it was long-term real estate financing products, it was M&A, it was loan syndications, all improved your-over-year and, again, I think really reflect the maturation of the capabilities and our teams having better conversations with our customers about how we can meet their specific needs.

In terms of investments, we're continuing to recruit and will continue to recruit. We see some capabilities that we still probably would aspire to have or to continue to build out. And so we expect capital markets to continue to grow nicely in 2018, on into 2019. Pipelines are pretty good for the second quarter and into part of the third quarter at this point.

Ken Usdin
Analyst, Jefferies LLC
Q

Got it. Okay. And then my last – the question is just on all things credit continue to look excellence all measures and you had another big quarter of reserve release. I know you're saying bottom end of the charge offs this year but is it also fair to say that there is still amount of relief that we could still see even from here? Thanks guys.

David J. Turner, Jr.
Senior Executive Vice President & Chief Financial Officer, Regions Financial Corp.
A

Yeah, Ken. So we don't forecast what the reserve percentage is going to be. We're at 105%. We still have non-performing assets. While they're down 75 basis points, we think there is room to continue to improve. We're encouraged by that. The strength of the commercial customer, the strength of the consumer is there. There are elements of consumer that ticked up just a little bit. Card would be one. But we see the consumer being very stable. We just don't think that the consumer credit metrics improved as much as we believe the commercial credit metrics can kind of continue to come down which manifest themselves as, I mean, in non-performing loans and non-performing assets. So there is always possibility for a reserve release, depends on what happens with the criticized classifieds. And we'll let the model run and it speaks for itself.

O. B. Grayson Hall, Jr.
Chairman, President & Chief Executive Officer, Regions Financial Corp.
A

Well, I do think you saw this quarter the very encouraging improvement. Our credit metrics, a big part of that was payoffs and paydowns on some adversely rating credits that quite frankly we did not anticipate it. Those are very difficult to forecast, but it's also encouraging that those customers can find alternative forms of financing today, and so we do anticipate that there is an opportunity for that trend to continue through the rest of the year.

Ken Usdin
Analyst, Jefferies LLC
Q

Understood. Thanks, again.

Operator: Your next question comes from Christopher Spahr of Wells Fargo.

O. B. Grayson Hall, Jr.
Chairman, President & Chief Executive Officer, Regions Financial Corp.
A

Good morning, Chris.

Christopher Spahr
Analyst, Wells Fargo Securities LLC
Q

Hi, good morning. My question is just a follow-up on the Simplify and Grow strategy, and the role of technology, and the March reorg that you had where you're putting technology under John Owen, the philosophy behind that? And also a lot of the tech spend it seems to be self-funding. Do you think that's going to continue into 2019? Thank you.

O. B. Grayson Hall, Jr.
Chairman, President & Chief Executive Officer, Regions Financial Corp.
A

Yeah, I mean, if you look back historically, we've had a very consistent investment strategy in the technology. We've not varied that a lot year-to-year. I think we've been pretty disciplined in that regard, and we're quite proud of the technology platform we've built. My background for the bulk of my career was in technology. John Owen has a similar background as well, and John has worked hard to strengthen and align the strategy in particular around our consumer customers with all of the attention to digital channels that we have.

As you know, Scott Peters runs our Consumer Banking Group, and he and John work together. We have an approach from a technology perspective, of not being the leader but being an aggressive follower of proven technology and that strategy's worked well for us. We have done a number of upgrades in technology over the past few quarters, a substantial upgrade on human resources for technology, wealth management, complete upgrade of that infrastructure, and in addition, treasury management. So we continue to make improvements. We get a lot of internal and external benchmarks that would indicate that that's working.

So John, elaborate if you would.

John B. Owen
Senior Executive Vice President & Head-Regional Banking Group, Regions Financial Corp.
A

Just a couple of points to reiterate. From a technology standpoint, we've been consistent even through the financial crisis. We've had really significant investments in technology. And if I think about consumer for a minute, we're very fortunate to operate a one-consumer platform across all of our 1,470 branches. That gives us an advantage over competitors that have multiple platforms that they have to maintain and change over time.

We also offer very good digital capabilities, invested heavily in our digital space in both online and mobile banking. Our customers give us good feedback. We have J.D. Power really survey our customers every quarter to get feedback on where we can make changes and where we can improve and we come in every quarter in the top quartile in terms of our channel capabilities. From kind of an ATM and video teller standpoint, we rolled out DepositSmart ATMs across our entire footprint. About 90 video tellers, we mentioned earlier, we're testing. So a lot of investment both in the digital space and the ATM space and branch channel.

To move on to the wealth business, as Grayson mentioned, we converted about 14 platforms on to our SCI platform which really is a state-of-the-art platform, great customer experience, great associate experience also gives us a better price point going forward. From a commercial standpoint, the team's done a really good job of putting new iTreasury platform, which gives us a much better user interface, better reporting, better analytics in our treasury space. And they're working very hard with nCino to roll out new small business and commercial platforms. So a lot of good things happening. I'll tell you, this is one of those areas where you'll never be done. We're going to continually have to invest in the digital space and really balance out where we make our investments and where we place our bets, but I feel good about the platform we have in place.

Christopher Spahr
Analyst, Wells Fargo Securities LLC
Q

Thank you.

Operator: Your next question comes from Steve Moss of B. Riley FBR.

Steve Moss
Analyst, B. Riley FBR, Inc.
Q

Good morning. I just want to flesh out the margin expectations for the second quarter here a bit more. In particular, obviously, should benefit from the rate hike, but it looks like your borrowings came down at period end and probably have a little bit more margin expansion than one would just expect from a straight rate hike?

David J. Turner, Jr.
Senior Executive Vice President & Chief Financial Officer, Regions Financial Corp.
A

Well, so we have a day count change going into the second quarter. So don't forget that's two points going the other way. And we were up four points this quarter as a result of day count. When you consider that and you consider the full quarter benefit of the rate hike and where we are, we would expect stable to up modestly in terms of margin, overcoming that two points decline for day count.

And we feel much better about our NII growth for the year, which is why we changed our outlook for the entire year to the 4% to 6% range. So we think we're well-positioned to take advantage of not only this past rate increase, but what might be coming in the future, which we have one full rate increase baked into our expectations for remainder of the year

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Steve Moss
Analyst, B. Riley FBR, Inc.
Q

Okay. And then with regard to capital deployment in targeted CET1, I know now you're still a pretty high here, obviously did an aggressive asset last year. How close do you think you can approach your 9.5% CET1 target by June 2019?

David J. Turner, Jr.
Senior Executive Vice President & Chief Financial Officer, Regions Financial Corp.
A

June 2019, we can get pretty close by then. We've really been talking about trying to get to 9.5% by the end of this year and we've messaged we can't quite get there but we'll get awful close, I think by the middle of next year. Based on what we know today that we'd be right on top of that. Now things can change. Risk profiles can change. The world can change and that's a long time. But based on our forecast right now, we'd be right on top of it by a year from now.

Steve Moss
Analyst, B. Riley FBR, Inc.
Q

Okay. And do you expect the proposed MPR – with the proposed MPR, you could lower your capital target further?

David J. Turner, Jr.
Senior Executive Vice President & Chief Financial Officer, Regions Financial Corp.

A

Well, the way we think about it, forget regulatory supervision in that. We set our capital based on how much capital we think we need to run our business appropriately based on the risk profile that we have. It's not about running our capital down as low as we possibly could get it. It's the optimization. It's the right amount for that. And so as risk profiles change up and down, those capital targets will change up and down.

What happens in the MPR is it makes it a little easier for us to manage it based on our own capital planning process versus waiting for a non-objection once a year. We do see it as favorable, not having risk-weighted assets increasing. We see it as favorable that you don't have to consider share repurchases in an adverse scenario. So I think this in an adverse scenario. So I think it'll be incrementally helpful. I don't know that that changes how we think about what our target needs to be though.

Steve Moss
Analyst, B. Riley FBR, Inc.

Q

Okay. Thank you very much.

Operator: Your next question comes from Geoffrey Elliott of Autonomous Research.

O. B. Grayson Hall, Jr.
Chairman, President & Chief Executive Officer, Regions Financial Corp.

A

Good morning, Elliott.

Geoffrey Elliott
Analyst, Autonomous Research LLP

Q

Hello. Good morning. Thanks for taking the question up. Maybe staying with that capital point, in the past, you've talked about preferred issuance as a possibility. I mean, does that kind of go away now or is that something that you still might need to do as you bring the CET1 down to the 9.5%?

David J. Turner, Jr.
Senior Executive Vice President & Chief Financial Officer, Regions Financial Corp.

A

Yeah. Geoffrey, we've always believed that we need – again optimization is – optimization in terms of total capital and the capital stack that is common and preferred and we've espoused having preferred that's about a 1.5 more than our common equity Tier 1. We've been satisfying that preferred component of the stack with common and that's awful expensive for us. So we see over time that we will trade out some common for preferred and you ought to expect that to happen sometime in 2019 as we get our common equity Tier 1 down closer to that 9.5% level. We're going to have to backfill our Tier 1 with the preferred issuance.

Geoffrey Elliott
Analyst, Autonomous Research LLP

Q

Great. Got it. Thank you very much.

Operator: Your next question comes from Matt O'Connor of Deutsche Bank.

O. B. Grayson Hall, Jr.
Chairman, President & Chief Executive Officer, Regions Financial Corp.
A

Good morning, Matt.

Matthew Derek O'Connor
Analyst, Deutsche Bank Securities, Inc.
Q

Hello.

O. B. Grayson Hall, Jr.
Chairman, President & Chief Executive Officer, Regions Financial Corp.
A

Hello.

Matthew Derek O'Connor
Analyst, Deutsche Bank Securities, Inc.
Q

I'm not sure you guys commented on it in some of the earlier remarks. But just on the securities book, the [indiscernible] (56:48) in the securities book going forward, how should we think about that going from here? It came down a little bit versus the fourth quarter levels and, obviously, also a function of both loan and deposit growth, but how do you think about the levels there going forward?

David J. Turner, Jr.
Senior Executive Vice President & Chief Financial Officer, Regions Financial Corp.
A

Yeah, Matt, it's David. I think that if you look at that percentage of earning assets that are in securities, I think that's going to be relatively stable. I do think if things change with [ph] SIFI (57:14) designation and things where LCR aren't as important, you can see the makeup of certain securities changing out. For instance, we're using Ginnie Mae securities to help us on our high quality liquid assets and perhaps we could put those to work a little more effectively for us in time. So I think that we would – we're going to continue to evaluate that and make sure we have an appropriate amount of liquidity, that we have the proper duration in the book and as we continue to grow earning assets, we'll have some portion of that in securities.

Matthew Derek O'Connor
Analyst, Deutsche Bank Securities, Inc.
Q

Okay. And what's the yield pickup if there was some flexibility on the liquidity rules that you would get on the securities book overall?

David J. Turner, Jr.
Senior Executive Vice President & Chief Financial Officer, Regions Financial Corp.
A

Yeah I don't think that's – I don't think, Matt, that's fairly meaningful right now. It's not that that much. I do think we have more ability to continue to pick up yield if you will on just the front book rolling off and the back book coming on in terms of investments given the rate environment right now. So we have about $3 billion that will roll out that will help us pick up about 70 – roughly 70 basis points of yield.

Matthew Derek O'Connor
Analyst, Deutsche Bank Securities, Inc.
Q

Okay.

David J. Turner, Jr.
Senior Executive Vice President & Chief Financial Officer, Regions Financial Corp.

A

That's why [indiscernible] (58:41)

Matthew Derek O'Connor
Analyst, Deutsche Bank Securities, Inc.

Q

All right. Thank you.

David J. Turner, Jr.
Senior Executive Vice President & Chief Financial Officer, Regions Financial Corp.

A

Yeah.

Operator: So our final question comes from Gerard Cassidy of RBC.

O. B. Grayson Hall, Jr.
Chairman, President & Chief Executive Officer, Regions Financial Corp.

A

Good morning, Gerard.

Gerard Cassidy
Analyst, RBC Capital Markets LLC

Q

Good morning, Grayson. How are you?

O. B. Grayson Hall, Jr.
Chairman, President & Chief Executive Officer, Regions Financial Corp.

A

Doing great.

Gerard Cassidy
Analyst, RBC Capital Markets LLC

Q

Good. A couple of questions for you. You obviously have very strong credit quality like many of your peers and it was interesting to see that the criticized loans have steadily declined now for over 12 months quite materially. And can you share with us was that energy related where you had to put some on two years ago now they have finally come off or did – and then the second part of that too is did the change in the tax laws in any of your non-performing loans or criticized loans, did the companies get a benefit because of lower taxes and therefore they may have come off the criticized list?

O. B. Grayson Hall, Jr.
Chairman, President & Chief Executive Officer, Regions Financial Corp.

A

Yeah, I think I'll ask John Turner to speak in a little more detail but clearly, we had a material exposure to the energy sector and it's taking some time to work through that exposure as well as we had some weather-related exposure because of some hurricanes that came through Texas and through Florida. And so as time has elapsed and the economy has stayed fairly steady, and quite frankly as liquidity has been so available that you've seen an awful lot of the composition of our loan portfolio shift and change and, as you point out, has improved dramatically.

But I'll ask John to speak with a little more color in that regard.

John Turner
President & Head of Corporate Banking Group, Regions Financial Corp.

A

So, I would say, clearly, we've benefited from some improvement in the energy sector, but I would suggest the improvement is really the results of the focus that we've had on de-risking certain asset classes, certain portfolios over the last two plus years and improving the overall quality of our portfolio. And as we've done that, what we've seen is a significant shift in the quality and at the same time we've had the opportunity to either see companies exit the bank or over time repair because of the work that we've been doing with them. And that's really I think what's had the greatest impact on asset quality as our focus across the bank on de-risking and managing the overall credit quality of our portfolio origination credit quality is much better over the last couple of years as well. And so I think that's what you're saying.

With respect to the question about taxes, it's too early I think to have seen any benefit – for our companies that have seen any benefit that would impact credit quality. We certainly would expect that some will experience improved cash flows and that will help us likewise in the energy business. We still have some portion of that portfolio that's adversely rated as prices continue to firm up we see cash flows improve there as well. I think you can expect some additional improvement resulting from the energy portfolio improving over time.

Gerard Cassidy
Analyst, RBC Capital Markets LLC

Q

Thank you. And then as a follow-up changing attack here, you guys gave us some good color on the investments you're making in technology particularly on the consumer side of the business. And there's been a lot of talk about all of the biggest banks spending billions of dollars on technology and how are the regional banks going to compete. The question is, do you look at your technology and the innovations you're making as a competitive advantage or is it really just the ticket to get into the ballpark and to play on the field, you've got to execute? And if you don't have the technology, you're not even going to get into the ballpark rather than that again being your competitive advantage. How do you guys look at it?

O. B. Grayson Hall, Jr.
Chairman, President & Chief Executive Officer, Regions Financial Corp.

A

Well, it's a great question and I think one that there's a number of different narratives in the marketplace that are driving fairly substantial technology investments across the industry. I do think that the industry broadly benefits from the investments being made in bank technology. As we said earlier in the meeting, our strategy has not been necessarily leading – on the leading edge of a lot of these technologies, but to be an aggressive follower of proven technologies.

We believe that customers enjoy using all of our channels and we see activity across multiple channels by the same customer on a daily, weekly, and monthly basis. And we've tried to work hard on trying to make that a very friendly, consistent experience when a customer comes into one of our branches or comes to a digital channel or an ATM channel. We want them to see the same information and to be able to have the same capabilities across those channels. We think it's making a big difference in our business, but all of our channels are still relevant.

I do think you're seeing this narrative about the dollars being spent on technology and that providing some level of competitive advantage. Whether that advantage is sustainable over time really comes back to execution. And we think we're doing a particularly good job of that. We're growing accounts. We're growing households. We're growing balances. We really tried to rationalize the composition of our deposit balance sheet and we've made some tremendous strides in that regard. Really proud of where we're at on deposits today. Very loyal, very granular, have a high customer satisfaction rate and technology is a big part of that but it's not all of it.

John, I wouldn't add to that, if you would?

John B. Owen
Senior Executive Vice President & Head-Regional Banking Group, Regions Financial Corp.

A

The only thing I would add a couple comments to Grayson, I go back to what I said earlier on the digital and mobile space. We won't spend more than some banks in that space but we look at it through a different lens. And the lens I would look at it from is what are our customers telling us about our channel offers today. If I go back to J.D. Power, again J.D. Power assesses our branch network, ATM network, mobile and online and our call center as well.

And when we look at it from a customer standpoint, we're consistently ranked in the top quartile. I think that's to me a more important metric than how many dollars you spend on it. So when we stack up in top quartile and our branch network, our online actually came in number two out of top 23 banks in last quarter. I think that's the lens that we spend more time looking on.

As far as innovations and things like that, a couple of things I'd point to, take our remote deposit capture. We were not the first bank to launch remote deposit capture. But what our consumer team did I thought was very innovative which is they came out with a remote deposit capture several years ago that offers a customer choice, and that choice is around when do they get credit for that deposit? Is it immediate and they can pay for that and get immediate credit which is great for small businesses that are looking for cash flow or they can do standard which is a free deposit. So things like that we're not going to be first but we can improve on what we're doing there.

The other one I'd point out would be AI. There's a lot of discussion and talk about AI in the market. We've been working with it now for over a year. In our contact center, we're using AI for our agents to be able to really chat with IBM Watson and answer customers' questions quicker in a more accurate way. And there are things like that that we're doing, they're just happening behind the scenes but we are innovating.

O. B. Grayson Hall, Jr.
Chairman, President & Chief Executive Officer, Regions Financial Corp.

A

Thank you, John.

Gerard Cassidy
Analyst, RBC Capital Markets LLC

Q

Very good. And if I could just squeeze one more in though, Grayson, because of your background, when you look at technology, we start back with the mainframes and then we went to minicomputers and then micros and then the Internet, now digital AI. Can you share with us from your experience how revolutionary – is the one we're going through right now the biggest of them all or no, you remember 25 years ago, it was even bigger?

O. B. Grayson Hall, Jr.
Chairman, President & Chief Executive Officer, Regions Financial Corp.

A

Yeah, it all depends on how you measure it. Obviously, this industry spent an awful lot on technology over the last two or three decades and really has sort of transformed how we serve customers and how we comply with regulation in compliance and how we analyze risk and how we extend credit. It just transformed every part of our business. And I would say that for the most part, it's gotten better, faster, cheaper every year.

Probably the largest transformation that has occurred has been the mobile phone. That mobile device, that mobile smartphone just really has been the largest game changer I saw in my career being involved in fin technology because early on computing was too heavy to carry in a mobile phone and it was relatively slow and extremely expensive. And we've seen that really come down over the years and so the cost of storing data, the cost of computing data has really improved. It's made it available to most of our population and so it's changed the way we serve customers. The question is how much value, how much sustainable value do you achieve as a bank by investing in technology?

I do believe you have to continue to invest, but as we've seen, computing becomes less expensive over time. And so you have to keep innovating, keep investing to I think to stay competitive and serve your customers in the right way. But I still believe the basics haven't changed as the people who win are real smart about what technologies they pick and they're really good at implementing and executing that strategy. And so I think, the execution is a much bigger question than how many dollars you spent last year. Dollars matter but execution determines who sustains a competitive advantage.

Gerard Cassidy
Analyst, RBC Capital Markets LLC

Q

Thank you. I really appreciate that color. Thank you.

O. B. Grayson Hall, Jr.
Chairman, President & Chief Executive Officer, Regions Financial Corp.

A

Thank you. Operator, are there any further questions?

Operator: No, there are no other questions in queue. I'll turn the call back over to you, Mr. Hall, for any closing remarks.

O. B. Grayson Hall, Jr.
Chairman, President & Chief Executive Officer, Regions Financial Corp.

Well, again, thank you for your time and your interest in Regions. We do hope that today's discussion was helpful to everyone and we look forward to next quarter.

So thank you. We stand adjourned.

Operator: This concludes today's conference call. You may now disconnect.